

## **EXHIBIT T**

A. RALLIS

## 1992 DIVIDEND SCALES

## Preliminary Discussion Points

- (1) Responses to Schedule M, Question 10, demonstrate that most companies share our concerns.
  - (a) "DAC tax"
  - (b) Declining interest rates
  - (c) Worsening mortality
- (2) We could compensate for the "DAC tax" by reducing dividends by about \$12 million year (although there will still be an additional \$24 million impact on surplus in the first year).
- (3) On the 1982 and later business, alone, a reduction in the credited rate from 10.00% to 9.50% would increase profit by \$8 million in 1991, growing to \$18 million in 1996.
- (4) Observed mortality continues to be worse than pricing expectation on 1974-1980 business, especially males, suggesting the need for additional mortality charges of perhaps \$20 million.
- (5) Thus, in terms of the observed experience, we could justify dividend reductions on the order of \$40 million. This would particularly impact the recent business. To maintain scales at the same aggregate level, we could increase distributable rates on older business (including Industrial) or accept lower planned earnings.
- (6) The real question, then, is whether the aggregate level of earnings and surplus warrants a reduction in the amount distributed to policyholders. Our recent, and projected, earnings on operations continue to exceed the "goals" that we consider necessary for a mutual insurer. However, earnings on surplus are still low, and surplus has started to decline as a percentage of assets.
- (7) We also recognize that a reduction in PI dividends is an available mechanism to improve overall corporate financials. If necessary, we are prepared to contribute toward any corporate earnings shortfall, in conjunction with all other available alternatives.
- (8) Responses to Schedule M, Question 3(c), demonstrate that most of our competitors have recently implemented scale reductions.

Michael Levine  
Actuary

May 10, 1991

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10. Does the undersigned believe there is a substantial probability that, because of expected deterioration of experience or for any other reason, the dividends illustrated on new or existing business cannot be maintained for at least two years? If yes, explain why.

Most companies responded Yes or No. However, ... citing one or more of the following reasons. Only one company, Penn Mutual, responded with a definitive No.

1. The additional federal income tax imposed by the Omnibus Budget Reconciliation Act of 1990 is not reflected in the 1991 dividend scale.
2. A decline in new money interest rates and/or low overall investment income.
3. Varying mortality due to AIDS.

Company	Reasons
Metropolitan Life	1 & 2
Conn. Mutual	1
Equitable	1 & 3
Guardian	1 & 3
John Hancock	1, 3 and costs associated with maintaining 1 force collector.
Mass Mutual	1, 2 and possibility of fluctuation in claim expense & termination factors.
Mutual Benefit	1
Mutual of NY	1 & 2
New England	1 & 2
Northwestern	1 & 2
Penn Mutual	No
Phoenix Mutual	Since dividends have been reduced each year since 1988, and the company is experiencing any result in dividends paid in future years that are lower than current illustrations.
Principal Mutual	1 & 2
Provident Mutual	1
Prudential	2
State Mutual	1

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## RATIO OF 1992 (PROPOSED) TO 1990 DIVIDEND MORTALITY

	AGE				
	20	25	30	35	40
NET 1960 & 1965	1.00	1.18	1.05	1.04	1.07
NET 1974 MALES	1.20	1.41	.98	1.15	1.04
NET 1974 FEMALES	1.00	1.01	1.00	1.10	1.06
TOWER 1960 & 1965	1.00	1.00	1.00	1.00	1.00
TOWER 1974 MALES	.99	1.15	1.06	1.12	1.00
TOWER 1974 FEMALES	1.27	1.32	.99	.99	.98
TOWER 1982 MALES	1.35	1.54	1.37	1.21	1.00
TOWER 1982 FEMALES	.98	1.41	1.24	1.10	.99

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## PERSONAL INSURANCE

GAAP EARNINGS  
(\$ millions)

	<u>OPERATIONS</u>	<u>SURPLUS</u>	<u>TOTAL</u>
1989	183	80	263
1990	159	97	256
1991 PROJECTION	178	80	258
1991 EARNINGS GOALS			
"RISK PREMIUM"	43	430	473
"ACTIVITY PREMIUM"	109	388	497

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## SURPLUS/ASSETS

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1980-89 Change
Metropolitan	5.81	5.90	5.93	5.53	5.16	4.93	5.20	4.76	5.03	5.20	-.61
		.08	.04	-.41	-.37	-.23	-.27	-.43	.26	.18	
Met Cons PI	10.42	11.01	11.65	11.79	11.82	12.74	12.91	12.27	12.88	12.60	+2.18
		.59	.64	.14	.03	.92	.17	.36	.61	-.28	
Aetna	3.26	3.48	3.35	3.11	3.04	3.02	3.02	3.10	3.15	3.24	-.03
		.22	-.13	-.24	-.07	-.02	-.01	.00	.05	.08	
Cigna	5.23	2.97	4.46	3.42	3.61	4.47	5.03	4.75	5.15	4.55	-.68
		-1.26	.45	-.64	-.21	.87	.55	-.20	.40	-.59	
Equitable	3.46	3.54	1.35	2.97	2.88	3.09	3.37	3.06	3.26	3.33	-.11
		.08	-.19	-.37	.06	.11	.29	-.31	.20	.07	
John Hancock	5.63	5.58	5.86	5.76	5.58	5.02	5.14	5.25	5.09	5.29	-.34
		-.05	-.08	-.11	-.18	-.56	.12	.11	-.16	.20	
Mass Mutual	6.32	6.08	7.40	7.02	6.30	5.40	6.33	5.75	5.31	5.40	-.92
		-.24	1.32	-.38	-.88	-.73	.93	-.58	-.45	.09	
New York Life	7.49	7.53	7.38	7.13	6.70	6.21	6.92	6.21	5.88	5.75	-1.73
		.04	-.15	.12	.48	-.49	.71	-.71	-.33	-.12	
Northwestern	7.35	7.00	7.13	6.57	6.30	6.75	7.00	6.24	6.40	7.28	-.07
		-.35	.12	-.56	-.28	.46	.71	-.76	.16	.08	
Prudential	6.36	4.92	5.04	5.38	3.42	3.60	4.58	5.07	5.28	5.59	-.78
		-1.44	.12	.31	-1.96	.18	.99	.73	.20	.31	
Travelers	3.82	3.95	3.51	3.19	2.96	3.02	3.16	3.23	3.16	3.79	-.03
		.13	-.44	-.32	-.23	.50	.16	-.44	.53	.63	
TOTAL	5.44	5.05	5.09	4.80	4.26	4.24	4.70	4.55	4.70	4.91	-.53
		-.39	.04	-.21	-.62	-.01	.15	-.15	.15	.20	
Met Relative to Peer Group	.37	.04	.04	.65	.90	.69	.49	.21	.32	.30	

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3e. For each major block of business, indicate when the dividend scale was last changed (including changes described in 3b.), and indicate the extent of such change in terms of the percentage by which dividends payable under the new scale exceeded or were less than those that would have been paid in the year of change had the scale not been changed.

Company	Year of Last Dividend Scale Change	Description	% Change	
Continental	1990	Pre 1980; 1980-1973	2.0%	(1)
Metropolitan Life	1991	1974-1981 Issues	2.0%	
		Industrial prior to 1942	-2.0%	
		Industrial issued 1942-44	2.0%	
Conn. Mutual	1991	Variable Loan Rate	-4.0%	
		Fixed Loan Rate	-5.0%	
Equitable	1992	Pre 1980 Issues	Decreased 1.3%-2.3%	(1)
	1990	1981-1982; 1987-1988	2.0%	
		1983-1986 (80 CIO)	-9.5%	
	1991	1987-1988 (80 CIO)	-9.5%	
		1989-1990 (80 CIO)	-9.5%	
Guardian	1991	Pre 1981-1986 Issues	Decreased 5.0%	(2) & (3)
		Direct Recognition	-4.0%	(2) & (3)
		Non-Direct Recog.	-4.0%	(2) & (3)
John Hancock	1989	Block A	2.0%	
	1990	Block B	2.0%	
Mass Mutual	1990	Permanent Insurance	2.0%	
	1995	Term Insurance	2.0%	
Mutual Benefit	1991	Most Plans	Decreased 4.0%	(2) & (3)
	1987	1988 CIO; 1989-90 Issues	-1.0%	(2) & (3)
Mutual of NY	1991	Most policies	2.0%	
New England	1991	Varies by Issue Year	Decreased 1.0%	
		1980-91 Issues	1.0%	
		1992 & later Issues	Decreased 1.0%	
Northwestern	1990	Direct Recognition	2.0%	
	1991	Non-Direct Recog.	11.0%	
Penn Mutual	1991	Non-Direct Recog.	4%	
	1987	Increased 1987 & earlier	Decreased 40-23%	
		Issued 1979 & later	-25%	
Phoenix Mutual	9/90; 3/91	All major blocks	-1.5%	-9.2%
Principal Mutual	1991	All policies	-3%	
Prudential Mutual	1991	AC; 1981 CIO	-3%	-4%
		1991 CIO (A,B,C)	-7%	-5%
Prudential	1991	Ordinary	-3%	
State Mutual	1994	AC 4.5%, 1961 & 1958 4%	4%	
		1958 4.5%, Fixed Rate	4%	
	1995	AC 3%, 1941 CIO 2.5%	17%-13%, 3%	
		1958 2.5% & 3%	24-12%	
	1998	1958 4.5%, 4.5%/3.5% Var Rate	-23%	-40%

(1) % Change varies by issue year.  
(2) % Change varies by reserve basis.

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